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ORIGIN EB-07

INFO OCT-01 EUR-12 ISO-00 /020 R

66616

DRAFTED BY EB:JMDERHAM

APPROVED BY EB:JMDERHAM

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R 080037Z NOV 75

FM SECSTATE WASHDC

TO AMEMBASSY LONDON

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FOR DEPUTY ASSISTANT SECRETARY JULIUS L. KATZ

FOLLOWING REPEAT CANBERRA 7502 ACTION OECD PARIS INFO SECSTATE
BONN EC BRUSSELS MTN GENEVA ROME STOCKHOLM TOKYO WELLINGTON
7 NOV 75
QUOTE

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E.O. 11652: N/A

TAGS: EIND, ETRA, OECD, AS

SUBJ: AUSTRALIAN PROPOSAL FOR OECD

AUTOMOBILE INDUSTRY STUDY

REF: (A) OECD PARIS 28892 (B) CANBERRA 4763 NOTAL (C) CANBERRA
628 NOTAL (D) CANBERRA 7528, 11/18/74 NOTAL (E) CANBERRA
4845, 8/31/73 NOTAL

1. FOLLOWING MAY BE OF BACKGROUND INTEREST TO USMISSION
OECD IN CONNECTION WITH AUSTRALIAN PROPOSAL FOR AUTOMOBILE
INDUSTRY STUDY DESCRIBED REF (A).

2. ALAN WOODS, DEPUTY SECRETARY, DEPARTMENT OF MANUFACTURING
INDUSTRY, WHO IS IDENTIFIED IN REF (A) AS PROPOSER OF OECD
STUDY, IS ONE OF THREE KEY GOA SENIOR OFFICIALS HAVING
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MAJOR RESPONSIBILITY DURING PAST TWO YEARS FOR COPING

WITH INCREASING PROBLEMS OF GOA POLICY TOWARD AUTO-MOBILE MANUFACTURE AND IMPORT. IN THIS CAPACITY, HE HAS HAD CENTRAL ROLE FIRST IN DEVELOPING GOVERNMENT POSITION ON FAR-REACHING PLAN FOR RESTRUCTURING OF AUSTRALIAN AUTOMOBILE INDUSTRY PRODUCED IN MID 1974 BY INDUSTRIES ASSISTANCE COMMISSION, AS WELL AS IN THE DEVELOPMENT OF GOA POLICY RESPECTING THE PROPOSALS BY NISSAN AND TOYOTA TO ENTER DOMESTIC MANUFACTURE OF AUTOMOBILES IN AUSTRALIA. IT WAS THESE TWO PROPOSALS WHICH TRIGGERED THE CABINET REQUEST IN AUGUST 1973 FOR THE COMPREHENSIVE IAC STUDY OF THE FUTURE OF THE AUSTRALIAN AUTOMOBILE INDUSTRY.

3. THE INDUSTRIES ASSISTANCE COMMISSION REPORT ISSUED IN JULY 1974 CALLED FOR SUBSTANTIAL LIBERALIZATION OF IMPORT POLICY AND A RESTRUCTURING OF THE DOMESTIC INDUSTRY TO CONFINE ITS PRODUCTION TO A NARROWER RANGE OF PRODUCTS IN WHICH IT COULD COMPETE WITH IMPORTS, WITH SHARPLY REDUCED IMPORT PROTECTION. IT CONTEMPLATED A SUBSTANTIAL REDUCTION IN THE SHARE OF THE AUSTRALIAN MARKET TO BE SUPPLIED FROM DOMESTIC PRODUCTION, ALTHOUGH THE IAC PROJECTIONS VISUALIZED A VERY MODEST INCREASE OVER TIME IN THE ABSOLUTE LEVEL OF DOMESTIC OUTPUT. THE STRENUOUS DOMESTIC CONTROVERSY OVER THE IAC PROPOSALS WAS OVERTAKEN BY THE SERIOUS DOMESTIC ECONOMIC DOWNTURN DURING THE LAST HALF OF 1974 IN WHICH GOA ATTENTION SHIFTED TO BOLSTERING DOMESTIC PRODUCTION AND EMPLOYMENT THROUGH A SERIES OF MONETARY EXCHANGE RATE AND IMPORT PROTECTIVE STEPS. IN THE CASE OF THE AUTOMOBILE INDUSTRY, EXTRAORDINARY PROTECTIVE MEASURES WERE TAKEN INCLUDING TARIFF INCREASES, QUOTA RESTRICTIONS ON CBU AND CKD IMPORTS AND TEMPORARY REDUCTION OF DOMESTIC SALES TAXES. NOTWITHSTANDING THESE MEASURES, WHICH AMELIORATED BUT DID NOT WHOLLY AVERT A SERIOUS DOWNTURN IN DOMESTIC AUTOMOBILE SALES, PRODUCTION AND EMPLOYMENT, AND THE FAILURE AND DISAPPEARANCE OF BRITISH LEYLAND AS A DOMESTIC AUSTRALIAN MANUFACTURER, THE GOA HAS CONTINUED NEGOTIATIONS LOOKING TO THE INTRODUCTION OF NISSAN AND TOYOTA AS DOMESTIC MANUFACTURERS.

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4. ALSO DURING THIS PERIOD THE HIGH AUSTRALIAN INFLATION RATE HAS FORCED DOMESTIC MANUFACTURERS INTO A SERIES OF ALMOST MONTHLY PRICE INCREASES WHICH HAVE SERIOUSLY ERODED THE COMPETITIVE POSITION AND DOMESTIC ACCEPTANCE OF THEIR PRODUCTS VIS-A-VIS JAPANESE IMPORTS IN PARTICULAR. THIS DOMESTIC PRICE ESCALATION WILL CERTAINLY CONTINUE FOR SOME TIME TO COME, FURTHER DEEPENING THE PROBLEMS FACED BY THE THREE DOMESTIC MANUFACTURERS, GM HOLDEN, CHRYSLER,

AND FORD. DURING THE PAST WEEK THE INDUSTRIES ASSISTANCE COMMISSION HAS RECOMMENDED CONTINUATION OF THE PRESENT TARIFF AND QUOTA ARRANGEMENTS THROUGH THE END OF 1976 BECAUSE OF THE CONTINUING SERIOUS PROBLEMS FACING THE DOMESTIC INDUSTRY.

5. THE DOMESTIC INDUSTRY PRESENTS A NUMBER OF SERIOUS PROBLEMS. AMONG THESE ONE OF THE MOST CENTRAL FOR THE GOA IS THE DILEMMA PRESENTED BY THE INTIMATE RELATION OF ITS AUTOMOBILE INDUSTRY PROBLEM TO THE LARGER AND IMPORTANT ISSUE OF ITS TRADE RELATIONS WITH JAPAN. IT IS DIFFICULT FOR THE GOA INDEFINITELY TO RESTRICT THE TIDE OF IMPORTED JAPANESE AUTOMOBILES WHICH IS SERIOUSLY DISTRESSING THE DOMESTIC INDUSTRY WITHOUT AT THE SAME TIME AFFORDING THE JAPANESE COMPANIES AN OPPORTUNITY TO ENTER AUSTRALIA AS DOMESTIC MANUFACTURERS. AT THE SAME TIME, IT IS OBVIOUS TO MOST OBSERVERS THAT THE AUSTRALIAN AUTOMOBILE MARKET (APPROXIMATELY ONE-HALF MILLION PER YEAR) WAS FAR TOO SMALL TO SUPPORT FOUR MANUFACTURERS BEFORE LEYLAND'S DEMISE, AND MAY WELL BE TOO SMALL FOR WHOLLY ECONOMIC OPERATION BY THE REMAINING THREE MAJOR PRODUCERS. CONSEQUENTLY, THE GOA'S CONTINUING INTENTION TO BRING IN TOYOTA AND NISSAN AS FOURTH AND FIFTH DOMESTIC PRODUCERS POSES OBVIOUS PROBLEMS FOR THE EXISTING INDUSTRY AND AUTOMOTIVE UNIONS.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, TRADE, AUTOMOTIVE INDUSTRY, IMPORTS, COMMITTEE MEETINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 08 NOV 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE265045
Document Source: CORE
Document Unique ID: 00
Drafter: JMDERHAM
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750389-0845
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751163/aaaacdzi.tel
Line Count: 142
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 OECD PARIS 28892, 75 CANBERRA 4763
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 29 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <29 APR 2003 by BoyleJA>; APPROVED <15 OCT 2003 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: AUSTRALIAN PROPOSAL FOR OECD AUTOMOBILE INDUSTRY STUDY
TAGS: EIND, ETRD, AS, OECD
To: LONDON
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006